Statement of the American Hospital Association
before the
Subcommittee on Oversight
of the
Committee on Ways & Means
of the
U.S. House of Representatives

Hearing on Tax Exempt Organizations
May 16, 2012

On behalf of our more than 5,000 member hospitals, health systems and other health care organizations, and our 42,000 individual members, the American Hospital Association (AHA) appreciates the opportunity to submit this statement for the record as the Subcommittee on Oversight of the Committee on Ways & Means examines the operations and oversight of tax-exempt organizations.

Tax-exempt hospitals support the Internal Revenue Service’s (IRS) goals for a reporting system to enhance transparency, demonstrate compliance and accountability, and minimize burden. Since the inception of the Form 990 Schedule H for hospitals in 2007, the hospital field has offered assistance and recommendations to the IRS to develop a form that would provide meaningful information. After Congress enacted new requirements for tax-exempt hospitals in 2010 (Section 501(r) of the Internal Revenue Code), the AHA and its members continued every effort to work with the IRS to achieve a reporting system that would provide meaningful information to Congress, the IRS, our communities, and the broader public.

The Revised IRS Schedule H to Implement the New 501(r) Requirements
A hospital must satisfy each of the new requirements in order to maintain its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Unfortunately, the revised Schedule H does not meet the goals that the IRS set and tax-exempt hospitals support. Attached please find our most recent letter to the IRS and the Treasury Department, which addresses the concerns of hospitals regarding both the process in issuing the form and the substance of the changes. It reiterates the significant concerns we have raised with the IRS since 501(r) was enacted.
Beginning with our July 22, 2010 comment letter, which responded to the IRS’s request for comment on the need for guidance regarding the newly enacted 501(r) requirements, we have offered specific recommendations for how to achieve Congress’ goals while minimizing unnecessary burden for hospitals and providing meaningful information to the public. We pointed out that the original Schedule H included questions that addressed most of the new requirements. We advised that the Schedule did not need a complete overhaul and that revising the instructions for certain questions would be a way to meet the new requirements and collect the needed information. The letter included specific suggestions for how that could be done.

Instead, on February 23, 2011, the IRS issued a revised Schedule H with an entirely new section that included an additional 80 questions that went beyond what the law required and created onerous and redundant reporting requirements. Tax experts predict the new Schedule H could balloon to 80-200 pages as a result. In April, we requested a meeting in a letter identifying significant and specific concerns with the changes in the revised Schedule, as well as the lack of notice-and-comment rulemaking to implement the new requirements. In a subsequent meeting, the IRS requested detailed line-by-line comments with suggestions for improving the form. On June 13, the IRS announced that the new section would be optional for 2011. On August 24, 2011 we submitted recommendations, as requested by the IRS, addressing each of the requests for information on the revised form and provided an explanation for the recommended changes.

In early January, the IRS issued the 2012 Schedule with no material change and made it mandatory. It is effectively a reissue of last year’s form with the same flaws and unnecessary paperwork requirements. The revised Schedule is not compliant with the Paperwork Reduction Act (PRA) and, in fact, has never been reviewed by the Office of Management and Budget (OMB) to determine compliance. As a result, hospitals are being denied the protection of OMB review and approval of mandatory collection and reporting obligations required by law.

We have urged the IRS to again withdraw or make the changes to the Schedule optional until the reviews required by the PRA are completed and an OMB approved form is issued. There is still time for the IRS to take action before hospitals begin their 2012 Form 990 filings with the IRS. Our attached May 16 letter to the IRS and the Treasury Department submitted with this Statement reviews the PRA requirements and demonstrates that the revised Schedule H is not compliant with the law. Noncompliance is more than a process issue. The substance of the revised form also fails to meet the PRA requirements that a mandatory collection of information be both necessary and the least burdensome for an agency’s proper administration of the law.

We hope that, as the Subcommittee continues its review, you will raise these concerns with the appropriate authorities at the IRS and the Treasury Department. Tax-exempt hospitals remain committed to achieving a reporting system that provides meaningful information about their compliance with the 501(r) requirements and the benefits they provide to their communities. We look forward to working with the Subcommittee to achieve these goals.

Attachment: May 16, 2012 Letter to Emily McMahon, Acting Assistant Secretary (Tax Policy) and Joseph Grant, Acting Commissioner, IRS Tax-Exempt & Government Entities Division (with attachments)